

SUMMARY ANALYSIS OF AMENDED BILL

Author: Granlund

Analyst: Colin Stevens

Bill Number: AB 1232

Related Bills: See prior analysis Telephone: 845-3036

Amended Date: 5/21/97

Attorney: Doug Bramhall

Sponsor:

SUBJECT: Jobs Tax Credit/Increase to 25% of First \$10,000 of Wages to Each Employee

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

☒ DEPARTMENT POSITION CHANGED TO neutral.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED May 7, 1997, STILL APPLIES.

~~OTHER - See comments below.~~

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would enact a credit for employers equal to 25% of the first \$10,000 of wages paid to each eligible individual who fills a new position. An "eligible individual" is one who has been receiving welfare benefits, was unemployed for the 90 days immediately preceding employment with the taxpayer, and is a registrant under the Greater Avenues for Independence (GAIN) program or is a recipient of Aid to Families with Dependent Children (AFDC). The credit would not be allowed to exceed \$2,500 per employee per year, or \$2,500 in the aggregate for each employee.

Additionally, this bill would make changes to the Unemployment Insurance Code that will be addressed only as they impact the Franchise Tax Board (FTB).

SUMMARY OF AMENDMENT

The May 21, 1997, amendments adopted most of the amendments proposed in the department's analysis of the bill as amended May 7, 1997. The amendments would:

- require that an eligible individual fill a new position in order to qualify a taxpayer for a credit;

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Department Director Position:

☐ S ☐ O
☐ SA ☐ OUA
☐ N ☐ NP
☐ NA ☐ NAR
☒ X ☐ PENDING

Agency Secretary Position:

☐ S ☐ O
☐ SA ☐ OUA
☐ N ☐ NP
☐ NA ☐ NAR
DEFER TO _____

GOVERNOR'S OFFICE USE

Position Approved _____
Position Disapproved _____
Position Noted _____

Department/Legislative Director Date

Agency Secretary Date

By: Date:

Johnnie Lou Rosas 7/8/97

- define a new position;
- make consistent the certification provisions to clarify that the Employment Development Department (EDD), county welfare agency or State Department of Social Services (DSS) may certify eligibility for this credit;
- make consistent the use of the term "taxpayer" to describe who would be eligible to receive the credit;
- require that a taxpayer retain a copy of a certification or revocation and any records necessary to demonstrate that a new position was created and provide these items to the FTB upon request;
- remove unnecessary language that would allow a taxpayer to elect not to claim the credit;
- require that an eligible individual has been receiving welfare benefits and has been unemployed for the 90 days immediately preceding employment with the taxpayer and has been receiving Aid to Families with Dependent Children (AFDC) or is a registrant under the Greater Avenues for Independence Act (GAIN); and
- make other technical changes.

SPECIFIC FINDINGS

With the addition of the above amendments, specific findings in the department's previous analyses of the bill as introduced February 28, 1997, and as amended April 7, 1997, and May 7, 1997, still apply.

Policy Considerations

The May 28, 1997, amendments would resolve a prior policy consideration by requiring that an eligible individual fill a new position, thereby removing the Franchise Tax Board's opposition to the bill. However, the following policy considerations still apply and are reiterated below.

The existing federal credit (equal to 35% of qualified wages, to a maximum \$6,000 in wages [\$2,100 credit]) provides an incentive similar to the credit that would be allowed by this bill. A recently proposed expansion of the federal credit would provide a 50% credit for the first \$10,000 in wages. If the federal wage credit is expanded and this bill is enacted, the combination would provide a federal/state credit equal to 75% of wages paid. Since this credit would not be decreased by the amount of the federal wage credit, it may create an incentive for an employer to hire employees to claim the credits and terminate them once the maximum of federal and state credits has been reached.

The prior state jobs tax credit allowed a maximum aggregate credit equal to \$600, or twice the maximum allowable annual credit of \$300, over 24 months. This bill would allow a maximum credit equal to \$2,500 in the aggregate, and \$2,500 per year. If the proposed credit were to mirror the prior credit, the maximum annual allowable amount would be \$1,250, with a maximum aggregate amount of \$2,500, thus ensuring two-year employment to maximize the credit benefits.

This bill would allow a credit for wages paid to certain individuals. However, this credit would not require that employers retain the employee for a certain period of time after the credit is claimed. Some wage credits, such as the enterprise zone credit, provide a "recapture" to ensure that employees are retained for a specified period of time.

When this credit was first enacted, enterprise zones and other economic development areas were not part of state law. Thus taxpayers did not have the opportunity to take multiple credits for the same expenses. However, now that those credits are available, a taxpayer could claim multiple credits for the same salary expense. The author may wish to consider whether taxpayers should be allowed to claim this credit in addition to the other wage credits and deductions to which the taxpayer is allowed.

Conflicting tax policies come into play whenever a credit is provided for an expense item for which preferential treatment is already allowed in the form of an expense deduction. This new credit would have the effect of providing a double benefit for the wages expense. On the other hand, disallowing otherwise allowable deductions to eliminate the double benefit creates a state and federal difference, which is contrary to the state's general conformity policy.

Implementation Considerations

The May 28, 1997, amendments would require that a taxpayer retain any certificate or records necessary to demonstrate that a new position was created and present these items to the FTB upon request, thereby resolving the department's prior implementation concern. This credit could now be implemented during the department's annual updates.

Technical Considerations

The May 28, 1997, amendments resolved all of the technical concerns identified in the department's analysis of the bill as amended May 7, 1997, but also created two technical concerns identified below. Department staff will continue to work with the author's office to resolve the last technical concerns.

Unemployment Insurance Code Section 328 uses the term "applicant" to describe an employer as well as a person who may qualify an employer for the credit. Amendment 1 would clarify that an applicant refers to the employer, while an eligible individual refers to the person who has received welfare benefits and who qualifies the employer to receive a credit.

FISCAL IMPACT

Tax Revenue Estimate

This bill is estimated to impact PIT and B&CT revenue as shown in the following table. The estimates assume that new hires prior to 1/1/97 are not eligible.

Fiscal Year Cash Flow Effective 1/1/97 Enactment Assumed After June 30, 1997 \$ Millions		
1997-8	1998-9	1999-0
(\$7)	(\$11)	(\$12)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

The impact of this bill would depend on the number of employers who employ qualified individuals, the amount of qualified wages paid or incurred for qualifying employee and the credit applied against tax liabilities.

This amendment differs from the amended version dated May 7, 1997, by specifying that individuals hired must fill a new position created by the employer/taxpayer.

This estimate was developed in the following steps and takes into consideration the newly enacted Federal Welfare Reform Act: First, the total number of individuals who may qualify employers for the credit was based on information received from the California Department of Social Services (CDSS). According to CDSS, approximately 846,000 adult individuals received AFDC as of December 1996. Second, this number was reduced by 20% to account for those currently in the workforce (approx. 169,000). Of these individuals currently employed, it was assumed that 10% would change jobs within the year. Thus, approximately 694,000 individuals could qualify an employer for the credit. Third, the number of AFDC individuals was reduced 20% to allow for non-employable individuals (corresponds to the 20% allowance under current federal law for state grant calculation purposes), leaving approximately 525,000 individuals who could qualify employers for the tax credit. Fourth, this number was further reduced by 15% to account for individuals who would be hired by governmental and tax-exempt institutions, leaving approximately 446,000 individuals. Fifth, it was assumed that within a two-year period, all qualified individuals would enter the workforce if only for limited time periods. Sixth, it was assumed that 50% of these individuals would go through the certification process qualifying the employer for the credit. Seventh, according to the Employment Development Department, there are approximately 3.2% net new jobs created annually. For this analysis, this percentage was doubled to reflect gross new jobs for the target group of this bill. Finally, the assumption was made that the average generated credit would be 75% of the maximum credit allowable ($.75 \times \$2,500 = \$1,875$). This was based on the reasoning that individuals filling newly-created positions would on average be more skilled and apt to remain employed, rather than moving from job to job. It was assumed that 70% of generated credits would be applied in any given year, and the unapplied carryover credits would be exhausted over a two year period.

For this analysis, no growth was applied to the number of qualifying individuals because of the newly-enacted federal welfare reform act, which limits the length of time an individual can receive cash benefits.

POSITION

Pending.

The Franchise Tax Board's prior position was "oppose unless amended" to require that credit be allowed only for newly created positions. The Board has not taken a position on the bill as amended May 21, 1997.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1232
As Amended May 21, 1997

AMENDMENT 1

On page 9, amend lines 10-12 as follows:

individual applicant has been receiving welfare benefits and was unemployed for the 90 days immediately preceding employment with the taxpayer, and the individual applicant is